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Management and the Free Standing Company – The New Zealand and Australia Land Company c. 1866 – 1900.

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1. Introduction – Wilkins and the FSC

The term 'Free Standing Company' was initially used by the business historian Mira Wilkins in her short 1986 book chapter 'Defining a firm'¹ which she followed up in her 1988 article 'The Free Standing Company, 1870 – 1914: an important type of British foreign direct investment'.² In these papers Wilkins set out the idea that a Free Standing Company (FSC) was a firm which was headquartered in one country but carried out its operations entirely in another country.³ In the 1986 paper Wilkins confined her analysis to the US between 1865 and 1900 comparing the form to family multinationals such as the Faber's and Merck's who sent family members abroad to set up firms otherwise unrelated to the parent. The important element in this was the location of the firm's registration; although the implications of a firm being unincorporated in a host country are not considered. Instead it is argued that the UK's registration legislation created the advantage that directors were responsible for monitoring overseas operations to ensure that shareholder's funds were not abused. Meanwhile the firm's capital could be held in sterling with the resulting access to wider financial markets. However in the longer run a UK based headquarters and board of directors could become a disadvantage as according to Wilkins it would cause an unnecessary expense to the firm. Decision making due to the need for long

¹ M Wilkins, "Defining a Firm: History and Theory," in *Multinationals: Theory and History*, ed. P. Hertner, and Jones, C. (Aldershot: 1986).

² M Wilkins, "The Free-Standing Company, 1870 - 1914: An Important Type of British Direct Foreign Investment," *Economic History Review series II* XLI (1988)..

³ The label 'Free Standing Company' was first applied by Wilkins in the aforementioned articles. This has prompted much further study since by a variety of historians; particularly Geoffrey Jones, Jaques Hennart, Mark Casson, T. A. B. Corley, Stanley Chapman, Rory Miller and Keetie E. Sluyterman. Previous writers have looked at FSCs before Wilkins defined them as such, notably Clark C. Spence, *British Investments and the American Mining Frontier, 1860-1901* (New York City: 1958)., W. Turrentine Jackson, *The Enterprising Scot: Investors in the American West after 1873* (Edinburgh, UK: 1968)., and perhaps most influentially Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton, UK: 1987). In this case Empire countries such as Australia or New Zealand are considered to be separate countries from the UK.

distance communication could also be slowed compared to locally headquartered firms creating a competitive disadvantage.

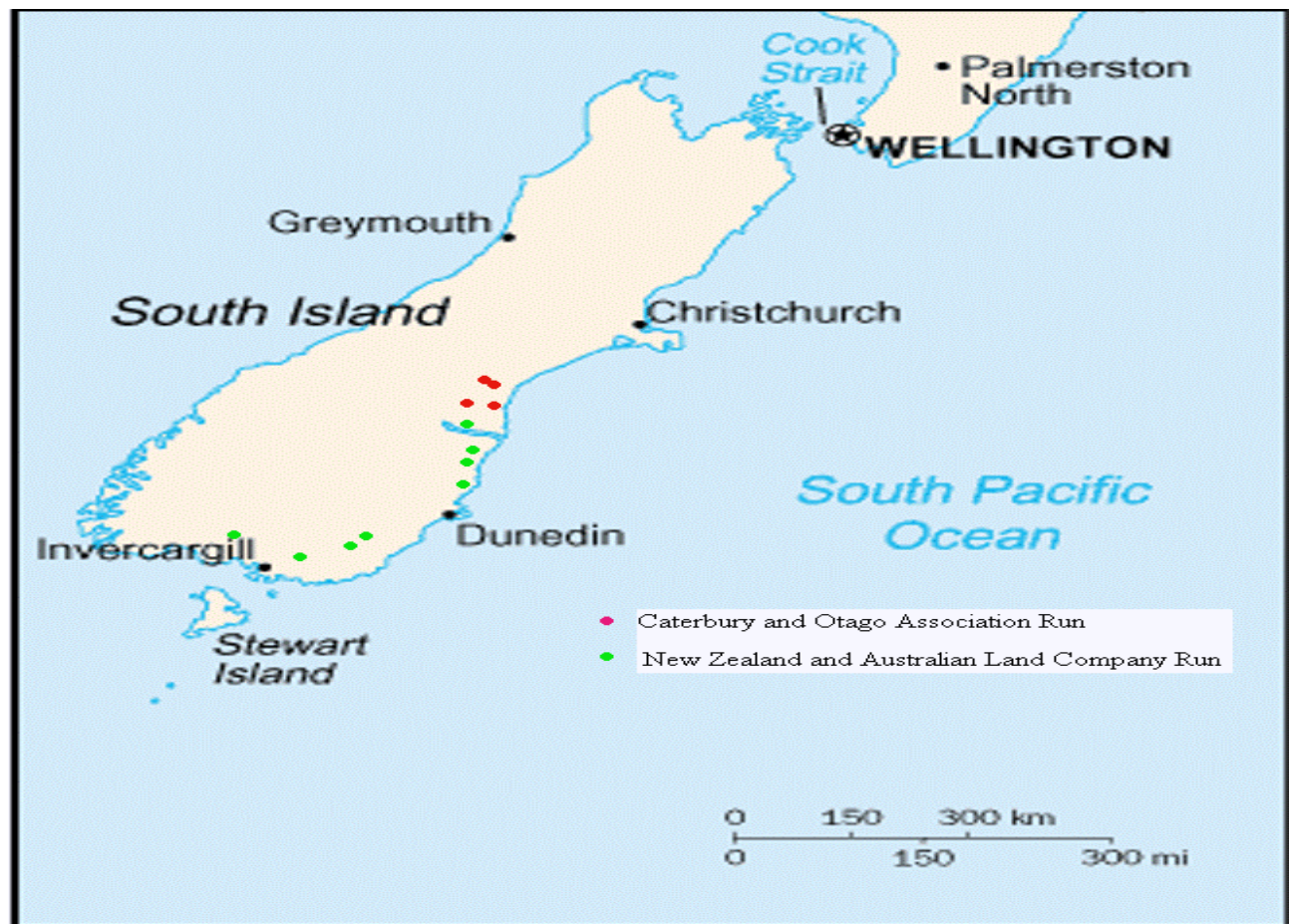
This short paper will examine the New Zealand and Australian Land Company Ltd. (NZALC), the largest Scottish FSC of this era in terms of capitalization at £2 million in 1866 (raised to £2.5million in 1877 after merger with its sister company, the Canterbury and Otago Association (C&O))⁴ to show that the Head Office of a Free Standing company was not necessarily an impediment to the company, but actually was capable of being a strong force not only in determining the success of the company as an organisation but also in the economic growth of its host countries, in this case New Zealand and Australia.

2. Structure of NZALC

The NZALC was originally formed in 1866 to give limited liability to around 38 disparate land holdings on both sides of the Tasman Sea owned by private Scottish investors. These holdings were vast, amounting to over 1 million acres cumulatively in Australia and a further 385,000 in New Zealand and were often in newly opened up frontier regions that lacked any proper mapping. Some of these were owned freehold while others were on temporary leaseholds from the colonial governments which could be ‘resumed’ and handed over to small settlers, known as ‘selectors’. Consolidating their holdings into NZALC allowed these investors to organise the working of their holdings more efficiently, despite the approx. 17,000km (10,000 mile) distance between the investors and their holdings.

⁴ The Canterbury and Otago Association shared its Head Office, General Manager and some board members with the NZALC until the two companies merged in 1877.

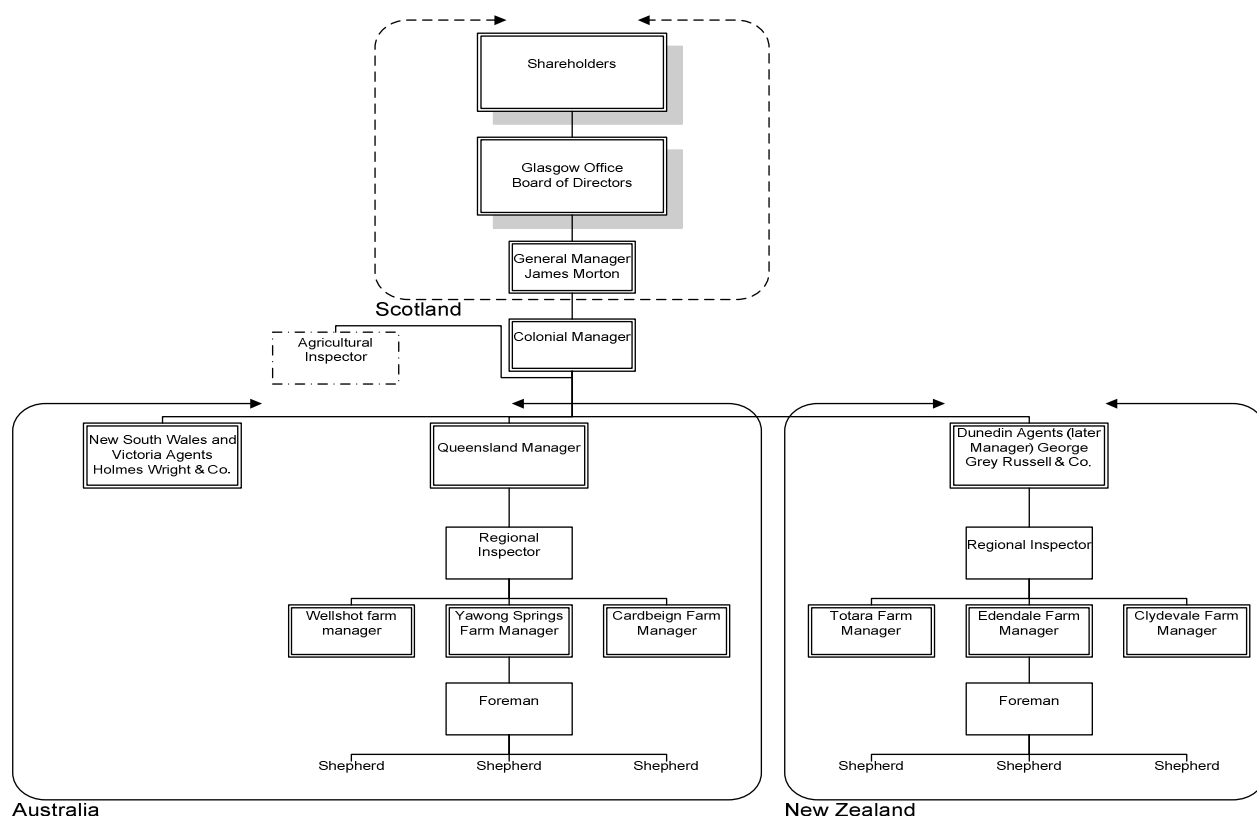
Map 1 – Main farm station locations of the C&O and NZALC in New Zealand c. 1877.



The NZALC's core business was sheep farming in both Australia and New Zealand, though cattle, pigs, horses and some arable crops were also kept by the company, as well as some urban real estate holdings. By 1879 the properties had been consolidated into 15 groups in New Zealand, each allocated their own manager, and a further five in Australia, with three being located in New South Wales, and one each in Victoria and Queensland. After incorporation the structure illustrated in **Figure 1** was gradually adopted. A Scottish based General Manager took most key decisions with reference to the Board and important investment decisions were theoretically supposed to be relayed by the Dunedin, Melbourne, or Brisbane agents back to the board for evaluation. These agents (later replaced or supplemented by permanent managers) wrote to the board every month sending an accounting summary and with information about important developments. Using the information given the board made decisions to be sent back to Australasia. This system was established very early on the company's development although cash control was not developed as strongly

as it might have been with many decisions taken by local managers before a reply giving permission (taking a minimum of four months) was obtained.⁵ The Dunedin, Melbourne and Brisbane agents had a pivotal role in this as they were responsible for the allocation of funds sent out to the colonies as share capital was called up in the late 1860s. Huge sums were invested firstly in purchasing properties and then improving them although in late 1867 the NZALC strategically decided to spend just £3,750 per month although this proved difficult to enforce with numerous stories of managerial extravagance surfacing.⁶

Figure 1 – The New Zealand and Australia Land Company Structure c. 1875⁷



⁵ We know it took this long because letters were frequently reproduced in the minute books along with the date that they were sent from New Zealand/Australia, and sometimes even the route that the post took (via Brindlisi or San Francisco). See National Archives of Scotland GD435/1-13. The copyright status of these books is uncertain but it is hoped that no infringement is caused by citing them.

⁶ For example, the manager of one of the NZ estates, Mr McAulay, who was told to pay an excess £790 for a new house built on the property, the company budget for houses being £1300. NAS GD435/7, meeting held 30th Dec 1867.

⁷ This has been devised by studying the minute books of NZALC board meetings across the period in NAS GD435/1-13 and taking note of a) the way that communication was structured between Australasia and Scotland, and b) mentions of the appointment of directors, managers, inspectors, clerks and other personnel.

3. The Role of the Head Office

Table 1 – The role of the three tiers of NZALC

Head Office	Agents/Regional Offices	Estate Managers
Corporate Strategy	Suggest strategy across region	Request required resources
Approve Production targets	Set out possible targets	Attain objectives/report back
Raise Capital	Receive and distribute capital	Invest capital within expenditure limits
Procurement	Oversee distribution of raw materials	Implement use of raw materials
Recruitment	Allocate employees to farms	Training, local recruitment of casual labourers
Marketing in UK	Local Marketing, distribution back to UK	
R&D/Information Gathering		Implement and report back
Financial Record Keeping	Record Gathering, send on to Head Office	Report on conditions, progress

Table 1 above shows the breakdown of responsibility between the three levels of management generally existing within the company. In addition to overseeing spending on this improvement process the Head Office had an important procurement role in obtaining the resources used for improvement: the Head Office purchased machinery, fencing wire, grass seed, rams for breeding purposes, thoroughbred horses, and even oversaw the purchase of stoats and weasels to attempt to control the rabbit population in the colonies.⁸ The Head Office also recruited career staff in Scotland before sending them to Australasia. The regional inspectors and supervisors mentioned in **Figure 1** were trained in a cadet system where they served time as shepherds and farm hands to educate them about the workings of a sheep run.⁹ Labourers were also recruited when necessary from the local populace.¹⁰ There was also a role for the Head Office in marketing; in the early years both companies relied upon wool exports and links with London based woollen merchants were closely forged. Later in the 1880s the Head Office organised a sales network in the London area to oversee the distribution of frozen meat when the company diversified into that market, the demand in the already densely populated London area for meat imports

⁸ William Soltau Davidson, *William Soltau Davidson, 1846 - 1924* (Edinburgh, UK: 1930), p. 48.

⁹ Ibid. Davidson's account of his recruitment and early life as a farm hand in New Zealand provides the best known account of a career with the C&O, and is likely to have been similar were he working for the NZALC.

¹⁰ Colin Williscroft, ed., *A Lasting Legacy - William Davidson 125* (Auckland, New Zealand: 2007), p. 29.

being much higher than in Scotland.¹¹ Between 1866 and 1877 the General Manager, James Morton, was based in Glasgow, whose office with a small staff was also used as the Head Office and boardroom of both NZALC and C&O.¹² The cost of this to the NZALC is shown in **Table 2** below under ‘Home Charges’, amounting to only about 4% of total gross profit a four year period. After the C&O was merged into the NZALC and Morton was arrested for his part in the City of Glasgow bank collapse the directors internalized and moved the company’s Head Office to Edinburgh, purchasing a permanent base there in the New Town, Edinburgh’s main business district at this time. At this point William Soltau Davidson was promoted from the ranks of the New Zealand management, having himself followed a career path upwards from cadet. For the NZALC the Head Office played a vital role as it procured scarce resources not accessible in the colonies for their activities there and could not be considered an unnecessary burden as its role was essential to generating revenue. The Head Office employed a bureaucracy of clerks to organise the information sent back by the management in Australasia, overseeing accounting and record keeping.

Table 2 New Zealand and Australian Land Company Profit Summary 1873-6¹³

Year	£'000s 1873	£'000s 1874	£'000s 1875	£'000s 1876	£'000s Total	£'000s 4 year avg	% of turnover
Returns from Wool	103.6	101.5	99.5	90.3	394.9	98.7	65.2%
Returns from Sheep	32.2	56.0	30.9	29.4	148.5	37.1	24.5%
Returns from Cattle	7.5	10.7	10.1	15.2	43.5	10.9	7.2%
Returns from Horses and Sundries	2.5	8.0	2.7	6.0	19.2	4.8	3.2%
Gross Colonial Returns	145.8	176.2	143.2	141.0	606.1	151.5	100.0%
Less Colonial working expenses and Depreciation of Implements	45.7	49.9	52.4	60.6	208.5	52.1	34.4%
Net colonial Profit	100.1	126.2	90.8	80.4	397.6	99.4	65.6%
Interest	16.9	18.8	21.7	23.7	81.1	20.3	13.4%
Home Charges	3.6	4.0	4.1	4.2	15.9	4.0	2.6%
Total Interest and Home Charges	20.5	22.8	25.8	28.0	97.0	24.3	16.0%
Net Divisible Profit	79.6	103.4	65.1	52.4	300.6	75.1	49.6%
Rate Percent of Dividend Paid	6%	7.50%	6%	5%			

¹¹ See James Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000* (Honolulu, Hawaii: 2001), p. 85. ‘In 1907 80 per cent of the meat sold in London was imported, mostly frozen, while 80 per cent of the meat sold in Dundee was home-produced.’

¹² See the minutes of both companies. NAS GD435/2 minute 30/04/1872 tells us Morton’s remuneration was set at £1,250 per annum but he was expected to pay his own office expenses such as staffing, rent and utility costs.

¹³ NAS GD435/2 08/01/1877.

The Head Office also acted as the entrepreneurial centre of the company, particularly after Davidson took control from early 1879. Davidson and the directors planned corporate strategy on the big scale there – almost immediately after Davidson took over a decision was taken to slowly dispose of the New Zealand properties to smallholders while gradually expanding holdings in Australia.¹⁴ This would allow the company to take advantage of the economies of scale and scope available there in regions that were not attractive to selectors, but where the company could spread risk. The Australian climate is susceptible to long periods of drought and soils are typically very thin, making the idea of very large farm holdings where livestock could be moved from place to place to follow water more appealing – see **Table 6** for an overview of how drought did not affect performance. In addition the company had the resources to prospect for water. Back in New Zealand, Davidson made a further clever move in the early 1880s by opening up the frozen mutton and lamb export industries which could later be exploited by smallholders purchasing land from the company – **Table 7** below is an overview of the disposal of lands to smallholders in New Zealand. The company also recruited a Danish butter expert and copied Canadian dairy production know-how to set up a dairy products factory on its Edendale estate, which was then gradually sold off to small dairy farmers.¹⁵ From his base in Scotland Davidson was able to oversee the marketing of these products in the UK and took up a directorship in Nelson Brothers Ltd., a company specialising in cold storage.¹⁶ The Head Office also oversaw the marketing of plots in New Zealand, particularly to Scottish settlers by advertising in agricultural journals.¹⁷

¹⁴ NAS GD435/11 Minutes 24th June 1880, 27th July 1880.

¹⁵ Dairy products were manufactured from about 1881 onwards when the board gave the New Zealand superintendant Thomas Brydone permission to start manufacturing. NAS GD435/11 minutes 3rd May 1881. In 1890 Davidson travelled to Denmark himself to take on a dairy expert – NAS GD435/12 minutes 1st April 1890.

¹⁶ Nelson Brothers were appointed as sole distributors of meat products for NZALC in England in 1886 – to oversee this Davidson was to sit on Nelson's board, and his directors fees were paid to NZALC, presumably so that he would have no incentive to act against NZALC's interests. GD435/11 minutes 14th Sept 1886.

¹⁷ For instance it was decided to continue an advertisement for farming land running in 'The North British Agriculturalist'. NAS GD435/11 minutes 18/10/1881.

4. Conclusion

The NZALC developed a managerial structure from the 1870s onwards which allowed the company to survive despite diminishing returns and the ravages of drought until its purchase by the Anglo-Australian Dalgety Group of food companies in 1968. This was possible through the evolution of a managerial system which incentivised employees in Australasia with long run benefits such as career progression and the promise of an eventual pension. This was held together through a hierarchical structure which delegated control over day-to-day specifics to the management of the estates while reserving control over capital investment, procurement, high level recruitment and planning of agricultural production for the General Manager, Board and Head Office staff in Scotland. While Thomas Brydone, the New Zealand Superintendant was in charge of planning the agricultural agenda for New Zealand annually after 1882, this plan had to be submitted to the Board for consideration based upon the prevailing prices of agricultural produce back in the UK. The company thus worked integrally as a trading system which could internalise information to create appropriate responses to the market situation outside the firm. This structure would seem far from Wilkins' original depiction of the Free Standing Company as a managerially inept organisation mostly reliant upon outside expertise to gain any kind of competitive advantage – the NZALC brought expertise inside the firm, even bringing James Melvin, a Lothian farmer onto the board from the beginning.¹⁸

Finally the NZALC had a wider effect on the economic development of its host countries. The fragile New Zealand economy, which previous to the introduction of refrigeration technology had been reliant upon the export of wool secured its longer term future through the NZALC's entrepreneurial move to introduce refrigeration. Meanwhile in Australia the company's presence helped to open up the interior and pioneer corporate pastoralism, which still remains important there today. In addition in both countries the company's tendency to recruit Scottish migrants had long run social effects. The NZALC then is an example of a Free Standing Company that went far beyond any sort of informal structure relying on disparate mercantile networks.

¹⁸ In a list of shareholders from 1877 Melvin was titled 'Farmer, Bonnington, Wilkeston'. Bonnington and Wilkeston are two small hamlets west of Edinburgh. NAS GD435/609.

Table 3 - New Zealand and Australian Land Company Land Holdings, 1877¹⁹

	Freehold			Leasehold		
Region	Acres	Cost and Fencing (£)	Cost per acre (£)	Acres	Cost and Fencing (£)	Cost per acre (£)
Victoria and NSW	31,431.00	42,038.57	1.34	582,000.00	169,625.62	0.29
Queensland	347.00	400.85	1.16	1,756,453.00	78,194.80	0.04
New Zealand	198,070.00	1,027,695.42	5.19	162,537.00	25,012.26	0.15
Total	229,848.00	1,070,134.84	4.66	2,500,990.00	272,832.68	0.11

Table 4 – NZALC aggregate freehold land holdings 1879 and 1889.

Property	Acreage 1879²⁰	Acreage 1889²¹
Acton	20430	16215
Ardgowan	6444	4480
Aparima	7041	
Clydevale	37254	36498
Levels	74002	57579
Merrie Creek	2771	
Moeraki	8621	6666
Pareora	22505	13999
Totara	15113	10796
Bluff Harbour	55	
Kaikorai	745	
Waitepeka	3145	
Invercargill Hundreds	105	
Edendale ²²	125860	46239
Hakateramea		23379
Kurow	609	646
Deep Dell	640	
Total Acreage	325340	216497

¹⁹ NAS GD435/2 08/01/1877.

²⁰ These values are taken from NAS GD435/611/2, W.S. Davidson's report on his visit to the colonies of 1878, p. 125. Roots and perches have been eliminated for simplicity. This table does not include town sections nor property leased from the New Zealand government.

²¹ These values are taken from the publicity booklet NAS GD435/611/4, 'Notes on the New Zealand Properties of the New Zealand and Australian Land Company Ltd., Nov 1889.', p. 125.

²² Edendale includes the sub-properties Matuara Plains, Waimumu, Forest Hill, Lindhurst, Edendale, Seaward Downs, Hunter's Bush, Otermika, Waihopai Downs, Morton Mains, Flemington, Woodlands, Mabel, Halfway Bush, Lothian, Thornton's Land, Spurhead, and Spar Bush, also taken from NAS GD435/611/4, p. 125.

Table 5 - Performance in Australia 1877-1900²³

Year to 31st march	Bales of Wool (‘000s)	Net Proceeds (£’000s)	Price per bale			Drought Losses (sheep ‘000s)
			£	s	d	
1877	10.4		15	12	8	
1878	0.0					50.2
1879	9.7	114.8	11	17	7	
1880	10.1	178.4	17	14	3	
1881	10.2	144.3	14	3	9	
1882	10.5	151.2	14	8	3	
1883	10.1	142.1	14	0	7	
1884	10.9	147.4	13	9	5	212.6
1885	10.3	112.5	11	17	10	
1886	9.7	111.7	11	10	8	
1887	10.5	141.7	13	10	6	
1888	11.0	141.8	12	18	2	
1889	11.7	168.4	14	8	0	
1890	12.9	198.3	15	6	3	
1891	14.4	188.6	13	2	0	
1892	14.8	170.2	11	10	1	
1893	17.0	196.8	11	11	8	
1894	14.7	157.3	10	14	2	
1895	16.0	156.7	9	16	6	
1896	13.5	151.9	11	5	4	108.5
1897	15.3	167.3	10	18	0	
1898	15.0	163.2	10	17	9	
1899	15.4	189.9	12	4	5	
1900	13.4	186.7	13	18	11	230.0

²³ Davidson, *William Soltan Davidson, 1846 - 1924*, p. 138-140.

Table 6 - NZALC Sales per acre of Freehold Land reported to Head Office, 1879-1906.²⁴

	The Levels	Pareora	Edendale²⁵	Totara	Acton	Clydevale	Others²⁶	Govt²⁷	Total
1879	417	4420	9542	3406			1507		19292
1880							296	8	304
1881		22	1056	20			100	14	1212
1882	1541	137							1678
1883	112	7	303				744	28	1194
1884	574	183	2855		555				4167
1885	7181		3345						10526
1886	93							19	112
1887			672					14	686
1888	408							3	411
1889	1477				300				1777
1890			18		284				302
1891	2217	193			294		372	3	3079
1892	566				1293		4		1863
1893	315				56		26		397
1894	231		219		448	46			944
1895	77				8				85
1896	1102		434		102			22	1660
1897	1239	273		40	651			20	2223
1898	801					1508			2309
1899	1819		217						2036
1900	761				499		570		1830
1901									0
1902	10				371				381
1903	2		45730						45732
1904	39403								39403
1905				658			1200		1858
1906				14048		35011	0		49059
Total	60346	5235	64391	18172	4861	36565	4819	131	194520

²⁴ Acreages sold per year extrapolated from NAS GD435/11, 12 and 13 with 1879 numbers from GD435/611/5. Roots and perches removed for simplicity. Does not include land swaps where acreages were swapped with other landowners.

²⁵ Edendale includes the sub-properties Matuara Plains, Waimumu, Forest Hill, Lindhurst, Edendale, Seaward Downs, Hunter's Bush, Otermika, Waihopai Downs, Morton Mains, Flemington, Woodlands, Mabel, Halfway Bush, Lothian, Thornton's Land, Spurhead, and Spar Bush, taken from NAS GD435/611/4, p. 125.

²⁶ Includes smaller properties with less than 5,000 acres total land sales in period – Moreaki, Waitepeka, Ardgowan, Hakateramea, and four acres from an unspecified run.

²⁷ Includes all acreages sold or gifted to national or local government for road or school building purposes, acreages sold for railways and acreages gifted to Churches.

Table 7 - Five yearly cattle and sheep numbers²⁸

Year	Sheep in New Zealand ('000s)	Sheep in Australia ('000s)	Total Sheep Carried ('000s)	Cattle in New Zealand ('000s)	Cattle in Australia ('000s)	Total Cattle ('000s)
1880	446.0	257.6	703.6	9.8	1.1	10.9
1885	412.2	282.2	694.4	6.6	0.6	7.2
1890	381.9	683.8	1065.7	5.3	4.1	9.4
1895	383.7	668.4	1052.2	4.7	4.9	9.6
1900	270.5	543.1	813.6	5.5	28.6	34.1
1905	174.5	811.8	986.3	2.0	28.2	30.2
1910	81.0	1555.4	1636.4	0.4	39.5	39.9
1914	60.5	1574.8	1635.3	0.5	100.4	100.9

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²⁸ Davidson, *William Soltau Davidson, 1846 - 1924*, p. 133.